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ABSTRACT

The trend for universities to use their excess land for profitable real estate ventures in conjunction with private developers and builders is considered. One of the first institutions to embark on development was the University of Washington, Seattle, and one of the best known examples of university-sponsored development is Stanford University, which owns the Stanford Industrial Park and a shopping center. Most universities that are pursuing property development view it as a means of enriching research, cultural resources, and community ties in addition to providing financial rewards. However, the strongest interest of universities is in the establishment of research parks that will attract research activities of interest to faculty and students. In approaching development, private universities appear to have less difficulty than public ones, which must deal with political problems and the matter of management responsibility. The experience of the University of Wisconsin, Madison, which held several acres of farm land, is illustrative of an approach to planning land development. It is important that the university formulate an overall strategy that defines primary and secondary objectives for land development. (SW)

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Campus Capitalists: Universities as Development Entrepreneurs

by DOUGLAS PORTER

What do developers of a highly profitable 770-acre industrial park in California, a thriving shopping center in Wisconsin, several major office buildings in downtown Seattle, and 352 luxury townhouses and apartments in New Jersey have in common? They are all examples of projects built on university land with university sponsorship and illustrate the rapidly expanding interest of universities in putting their land assets to profitable use. Universities and colleges all over the nation are taking a second look at development opportunities on excess land and embarking on new and relatively untried paths to participate with private developers and builders in real estate ventures.

Consider the opportunity recognized by the University of Wisconsin at Madison, which owns three farms in the path of Madison urban growth. In 1981 the University of Wisconsin Foundation asked the Urban Land Institute to evaluate development opportunities for these properties. The recommendations of the panel, later adopted by the university, were to plan and carry out mixed-use development on two of the farms using funds obtained from land leases to finance acquisition of more farmland elsewhere. Besides adding to the community's tax base, development of the properties would also enhance employment and housing opportunities for local residents. The university hopes to benefit from the expansion of research activities related to university programs and from contributions to research funding made possible by revenues obtained from the development.

Many other universities and similar institutions (such as large hospitals) are taking notice of such opportunities. The experience of those that have succeeded with developing land may provide some useful lessons for many more which are just beginning. In view of current widespread interest in public/private development relationships, it is also useful to explore the ways that these public or quasi-public institutions have worked with private developers and builders.

New Outlook for University Properties

Universities have always had responsibilities for property management, often involving many buildings on hundreds or even thousands of acres of land. Traditionally these institutions have viewed their property holdings as a resource to be maintained solely for university use. Unused or underused land has been carefully guarded against the day when university expansion would require it, and the occasional building or farm bequeathed by an alumnus has been either conserved intact for university use or sold outright. The common perception is that university property holdings are held in trust for future generations of students, which calls for conservation and management rather than a recognition of other opportunities.

Today many university administrators are scanning their property holding with a fresh perspective, impelled by tightening budgets, interests in enlarging the scope of university activities, and a recognition that the explosive growth of past years has come to a halt. The financial resources of almost all universities, both public and independent, have been increasingly strained over the last decade or two. The passing of the baby-boom generation of students unfortunately has coincided with a period of rapidly escalating operating costs. Many universities have found that extensive physical plants and inflated faculties, built up in response to the flood of students in the 1950s and 1960s, are now underutilized and increasingly expensive to maintain.

Publicly supported universities have suffered the added burden of having to defend their budget needs against nationwide calls for reduced public spending. With these pressures, added to the decline or stabilization of enrollments on many campuses, universities have turned to consolidation and more effective use of existing resources. One result is that their lands, once kept in inviolable trust for future use, are now viewed as a potential resource for financial return.

In this regard, the experience of several universities that have developed their properties for income as well as other purposes is instructive. One of the earliest, if not the earliest, institutions to embark on development was the University of Washington in Seattle, Washington. Beginning in 1893, the university began leasing its vacated 10-acre campus in downtown Seattle, primarily because early

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sale of the land failed to materialize. Development of the tract proceeded sporadically over several decades, with construction of several office buildings, a hotel, and a theater. After reconsideration of leases and development opportunities in 1953, most of the tract was leased to University Properties, Inc., formed by Roger Stevens, which has since completed or renovated six major office buildings, a retail center, the Olympia Hotel, two parking garages, and pedestrian concourses and sky bridges. The property, which is valued at well over $100 million, returned $4.3 million in revenues to the university in 1979.

Despite this impressive record, Stanford University in Stanford, California, is probably the best known example of university-sponsored development. The Stanford Industrial Park has 660 acres occupied by over 80 organizations that employ over 16,000 persons. The park, begun in 1953, has become one of the most famous research-oriented industrial centers in the world and was at least partly responsible for the explosive growth of high-technology industries in the San Francisco area. Stanford University owns and manages the park through a property management firm, leases land to tenants, and supervises design and construction of buildings. The university also developed a highly successful regional shopping center on 71 acres, with 120 stores and 1.2 million square feet of space.

Two less noted examples illustrate the range of experience of universities in land development. The George Washington University has aggressively pursued a land acquisition and development program in the heart of Washington, D.C. as a means of obtaining financial support for university activities while retaining land for future needs. Five major office buildings with a total floor space of 1.9 million square feet have been developed and leased by the university for such tenants as the National Academy of Science and the Potomac Electric Power Company. In Madison, Wisconsin, the University of Wisconsin developed surplus farmland for a neighborhood shopping center and a residential area. Through a university-affiliated group, it retained management control and derives income from the shopping center. Across the country, there are a number of other universities—Massachusetts Institute of Technology and Princeton, for example—that have set out to derive income to help support university activities by development of university property, and each year more are considering it as budget realities emerge.

Most universities that are pursuing property development view it as a means of enriching research, cultural resources, and community ties in addition to providing financial rewards. Both Rutgers University and the University of Connecticut, for example, are planning conference centers, combining a hotel with meeting space. The University of Maine is considering development of a cultural center that would provide facilities for community as well as university groups. Rutgers and the University of Wisconsin have developed housing for the general market and both are planning more.

University Circle, Inc., representing Case Western University and about 30 other institutions in the heart of Cleveland, Ohio, has sold housing owned by the institutions to tenants and cooperatives who will maintain it as low-cost housing and has sold land for construction of higher-priced condominium units to stimulate neighborhood revitalization. Harvard University, at the urging of the city of Cambridge, is sponsoring a mixed-use development for the general market on property obtained for that purpose. And the University of North Carolina at Charlotte is planning a new town center in conjunction with its development of a research park.

By far the strongest interest of universities, however, is in the establishment of research parks that will attract research activities of interest to faculty and students. Many universities, hoping to emulate Stanford and the equally successful Research Triangle in North Carolina near Raleigh/Durham, believe that high-technology research firms associated with the university will help to foster research grants and employment for university faculty and students. These activities, it is hoped, will not only enhance university teaching and employment opportunities, but also spin off revenues to university activities. Most universities, however, claim to be more interested in expansion of research for its own sake.

"We're not developing a research park simply to generate additional income for the institution," said University of Connecticut President John DiBiaggio recently. "As a university our principle interest is basic research whereas industry is concerned with applied research. That technology transfer can best be effected when scientists are working hand in hand." With these prospects for educational, research, and financial gains, universities from Connecticut to Oregon are actively planning and developing research parks to attract high-technology firms.

Development Organization

The decision to take the plunge into entrepreneurial action invariably involves universities in business relationships with private developers and builders. Specific arrangements, although varying greatly from institution to institution, provide interesting examples of public/private partnerships in land development. Some universities do most of the preliminary planning and marketing within the university administrative structure and bring in a developer or builder simply to lease a parcel and build. Stanford and George Washington Universities, for instance, manage their development efforts as staff operations, as an extension of normal planning and construction activities of the university.

Other universities, usually public ones such as Purdue, Wisconsin, and Case Western, create or use an intermediary organization such as a nonprofit corporation or foundation to oversee development activities. Still other universities have not wanted to commit staff time and expertise to development and have contracted with development teams to plan and manage development for them. The University of Washington provides a good example of this method and the Research Triangle in North Carolina also can be said to function in this way. The Research Triangle Park was organized by a statewide group that was concerned with creating employment opportunities that would benefit from the capabilities of the three nearby universities—Duke, North Carolina, and North Carolina State. The park is managed and developed by a nonprofit organization controlled by state and university representatives.

The Massachusetts Institute of Technology and Rutgers University also plan to execute long-term development and management agreements on leased land. Both have advertised for development proposals for university land, after preparation of a prospectus that sets forth the university's objectives for development and the expected contractual relationship to be entered into.

As these relationships between universities and private developers

evolve, both partners may benefit from the experience gained with various forms of public/private cooperation in development over the last decade or two. Developers and public entities have learned to work with each other in many kinds of economic and community development projects and housing programs. Working arrangements that function well now have a track record. The important lesson—and one not lost to university administrators—is that public institutions and private developers can find ways to work together with mutual benefit.

Approaches and Issues

In approaching development, independent universities appear to have an easier time than public universities. Independent universities have adopted the most flexible and direct approaches to development, while state-supported institutions, which must deal with all sorts of essentially political problems in order to engage in development, usually take more cautious approaches. The major concern of public institutions is that, after exerting time and effort to accomplish development that produces an income stream, state legislative budget-makers will simply deduct that income from annual appropriations, leaving the university no better off financially than before and with added responsibilities for managing developed properties. The University of Washington has suffered from this problem: although the state benefits from reductions in university appropriations, the university obtains little additional financial benefit from development activities.

Public universities have devised a number of strategies for getting around this problem. The chief approach is to place property development and management activity in the hands of an affiliated organization, such as an alumni or research foundation. All income to the university can be targeted by this group for specific university purposes such as research programs or faculty chairs. This tends to prevent any impact on the general budget of the university. At Purdue University, for example, the Purdue Research Foundation organized a profit-making corporation, McClure Park, Inc., to manage land leases and building rentals for its 60-acre research office park. Net income has been reinvested in university research facilities in the park. Thus, all financial transactions are separate from the university budget process. The Research Triangle Park in North Carolina provides a more complex example. The Research Triangle Foundation, in which three universities participate, contributed land and initial grants to found the Research Triangle Institute, a contract research affiliate of the universities, and the Triangle University Center for Advanced Studies, Inc., an educational and research arm of the universities, both located at the Research Triangle Park. Another example is Rutgers University, which has not established an intermediary organization but channels all income from development to scholarships and endowed faculty

Research Parks and Universities: Ideal Marriage or Forced Cohabitation?

Many universities are toying with the notion of establishing research parks as natural partners. Dazzled by the successes of Stanford University's Industrial Park and North Carolina's Research Triangle, universities view the high-technology industries typically found in research parks as "most-favored" neighbors and potential financial bonanzas. Three potential benefits attract the attention of universities: expanded opportunities for employment of faculty and students by private firms engaged in advanced research; creation of research activities that will overlap with university research programs; and generation of revenue from land and building development. Likewise, there is an attraction for research industries to universities. A recent article on the subject of high-technology industries in *Planning* magazine (November 1981) observed that the highly educated key employees of these industries "seek the combination of a strong scientific community, university affiliation, large houses in prestigious neighborhoods, and access to culture and recreation," all of which are often found in university communities.

Two problems stand in the way of realizing these opportunities. One is the nature of the market for high-technology research industries, which is mercurial at best. Research firms are often started on a dime and may expand explosively or fail absolutely depending on their success with a specific product at a specific time. Such firms often choose locations as much for lifestyle preferences of the managers as for any other considerations. Also, although high-technology industries are expanding rapidly, university interest in them may be expanding even faster, thinning out the potential market.

The second problem is that such firms may or may not employ staff, faculty, and the students from local universities or may actually compete with the university for research contracts instead of adding to university resources. Furthermore, space needs of research firms may not generate much revenue, particularly if they fail.

To counter these unpredictabilities, most "research" parks actually consist of a variety of other types of activities in addition to research. (The title of a 1965 *Urban Land* article put it aptly: "A Research Park Does Not Live By Research Alone.") In that article, R. John Griefen, then senior vice president of Cabot, Cabot, and Forbes Co. (which developed Technology Square in partnership with the the Massachusetts Institute of Technology), pointed out that most research parks must include other activities to be successful. "[I]t is highly dangerous," he said, "for a community to feel it can depend on only research facilities in a park development. The development will in all probability starve for want of occupants. . . ."

This prediction is borne out in existing research parks. Even the Research Triangle Park in North Carolina accepts organizations engaged in "research, development, and scientifically-oriented production" and includes offices for a variety of business and consulting service groups and companies such as IRM which produce manufactured goods as well as carry out research. Universities that are considering establishment of research parks should take a long look at the probable market for research industries, recognizing that many other universities are also attempting to attract them.

Douglas Porter

chairs rather than to general operating funds.

A second issue that public universities confront in undertaking income-producing development is the matter of management responsibility. The University of Washington concluded, after several decades of experience, that direct management of development by the board of governors occupied too much board time and resulted in too much political maneuvering on development issues. Rutgers University and many independent universities, on the other hand, are directing development and management activities within the university administration, under the eye of governing boards, without undue conflict.

However, because most of the public universities operate in the public eye with highly visible legislative and political connections to worry about, it would appear to be difficult for them to successfully manage the intricate, fast-moving, and sometimes necessarily secretive business of land development. Among other issues, conflicts of interest are almost sure to arise with the major landholders, businessmen, and corporate participants who are often involved in university affairs. Thus, although governing boards can and should provide overall policy direction and final action on major decisions, it appears that most public university administrations would find it easier to manage development activities through separate organizations.

The University of Connecticut, for instance, is planning to form a nonprofit corporation that will hold the land, lease it to developers, and distribute the revenues back to the university.

The independent university is less vulnerable to public demands and therefore can focus more on the principal question: when engaging in development activities how can it best leverage land values into long-term returns on investments that can aid university objectives. While independent universities do not have access to low-interest public bonds and similar funding sources, they are much better able to deal in a businesslike way with private funding sources without fear of legislative and bureaucratic interference. Independent universities also develop with the incentive that a dollar earned from development is another dollar that can be directly applied to general capital and operating expenses.

The University of Wisconsin Experience

Like many other universities, the University of Wisconsin at Madison has been the recipient of many bequests of land. In the Madison area, three farms left to the university, totalling 390 acres, were being utilized chiefly for research by the College of Agriculture and Life Sciences. Because two of the farms were surrounded by urban growth at the western edge of the city, and the third one was clearly in the path of urban growth, the university believed the time had come to examine alternate uses for the land.

The Land Development Advisory Committee of the university's board of regents, in consultation with university administrators and staff, carried out preliminary studies of potential uses and formulated a general approach to treatment of the farm properties: the university would seek to develop one or more of the farms to create a continuing, long-term flow of revenue to aid in supporting university academic activities. Two major conditions were attached to this strategy. One was that land and facilities used for agricultural research would be replaced at some more appropriate location with funds from sale or development of the farms. The second condition was that future development plans for the farms must be agreeable to and coordinated with city of Madison officials.

The University of Wisconsin had had some previous experience on which to base this approach. In the 1950s, it sold the 600-acre Hill Farm in the city of Madison to be developed for residential purposes. Thirty-three acres were leased to a university-affiliated group that developed and manages a community shopping center. The Hilldale Shopping Center continues to generate annual revenues for university research.

Other factors also entered into the university's readiness to consider development. A research firm had requested a building site on university property, and the university and the city welcomed the potential research-oriented employment promised by this move. Also, the Wisconsin Alumni Research Foundation, which had its own sources of funds and an active management staff, was standing by to participate in any way helpful to the university's objectives.

At this point, the university determined that it needed expert advice, preferably advice from outside university circles, on what, when, and how to develop the properties. With financial support from the University of Wisconsin Foundation and the Rennebohm Foundation, it turned to the Panel Advisory Service of the Urban Land Institute (ULI) for that purpose. ULI organized a panel of 10 developers and development consultants to evaluate development opportunities for the farms and to recommend development approaches to the university.

The panel, after a week of on-site deliberation, recommended that the university pursue development of two of the three farms for a mixture of uses, and retain the third farm in agricultural uses until a future time when urbanization was more imminent. In addition, the panel also made the following findings and recommendations:

- Given potential land absorption rates in the Madison area and the relative imprecision of defining the research and development market, the panel recommends multi-use development of the farms, combining an office and research park with retail, hotel, and a variety of residential uses.

- The university should move immediately to negotiate with identified companies interested in locating at one of the sites. Early association with a nationally known firm would stimulate future marketing of the property for an office and research park.

- Site designs and planning controls established for the farm properties should emphasize flexibility to respond to market opportunities over the 10- to 15-year period required to develop the properties and should aim to encourage a high-quality environment for all uses.

- The university should designate or create a development entity with highly qualified professional staff to undertake, either directly or in association with a private developer, the planning, marketing, and development of the properties.

- The first step in developing properties, after opening discussions with interested corporations and after designating a development entity, should be formulation of a plan based on complete and detailed market, planning, and engineering studies.

(These recommendations are more fully discussed in the panel's report to the university, which is available

from ULI.) The panel pointed out that with the moderate pace of growth in the Madison area and the uncertainties of obtaining research-oriented industries, development and marketing plans should be structured to attract a wide variety of uses. The panel also emphasized the need for a fully funded, competently staffed planning and management effort if the development was to achieve the objectives of the university.

The plan outlined in the panel's report was approved by the board of regents early in 1982, and discussions have already been opened with potential users for the sites. The special assistant to the chancellor of the university has been designated as manager of planning for the development effort.

The response of panel members to this assignment provides some insights into university development opportunities in general. Michael Kelly, who served as chairman of the panel, observes that university development of excess property "provides a fertile field for development, but one which must be prepared with great care because of the political and other complexities involved." He notes that even with the prior experience of the University of Wisconsin-Madison, it appeared that in this case the university was reacting more to internal administrative pressures and external interest from developers than because it recognized the opportunity for land development. This opinion was shared by Bruce Hayden, a member of the panel, who commented that "previous university actions to expand animal research on the property demonstrated that the university had not recognized the development value of the properties soon enough. "Nevertheless," he added, "the university is now approaching development with resolve and forethought."

Lessons Learned

Given the experience to date of universities that have sponsored or engaged in development activities, it is clear that university administrators and the development community are constructing imaginative responses to needs for a working partnership. Independent universities, with their more centralized decision-making process and clearer mandate for survival, have been most daring in establishing relationships with developers. A number of public universities, however, have fashioned workable arrangements that have withstood criticism and are meeting their stated objectives. What the universities have in common is an adopted strategy for development that spells out primary and secondary objectives to be achieved and a general approach to implementation.

It is clear, nonetheless, that many universities—and many developers, for that matter—are not fully aware of the possibilities for development that exist for university land. Even if they have recognized the possibility, universities are often unsure of the approaches to use. "Universities tend to view land development opportunities as an alien idea," comments Michael Kelly, "because real estate development is not part of anyone's job description at the university."

The experience of universities that *have* undertaken development, however, provides some general guidelines to a workable partnership.

- To begin the process, university officials must determine that the university has excess property which can be developed. This may require overriding the interests of the individual departments and colleges within the university.
- The university should formulate an overall strategy that defines primary and secondary objectives for development, taking into account institutional, educational, financial, faculty and student, and community interests.
- The university should realistically assess its capabilities for financing and managing real estate development and determine potential roles for the university, affiliated organizations, and development entities in the planning, development, and operational processes.
- Responsibilities for actual planning, development, and management should be centered in one office or entity and the development undertaken with professionally skilled staff.
- Participation of a developer/builder should be sought in a straightforward way through open competition and negotiation, with a clear role defined for the developer.

At each step of its deliberations, the university will do well to avail itself of professional assistance, in the form of paid consultants or advisors experienced in real estate matters. In real estate development, there is no substitute for experience and knowledge, and in the tricky waters of public/private cooperative development, these qualities will be even more in demand.

The experiences of universities with real estate development may have some broader implications for land use practice. Once universities begin to view land as a resource with real value, they will be impelled to use land more effectively, not only for real estate ventures but for university purposes as well. The perception of land as real estate can impose a useful discipline on campus planning and development and can provide a valuable linkage to development concerns of the communities within which universities are located. ♦

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